REMARKS

Applicant respectfully requests reconsideration of the above referenced application in light of the Amendment submitted herewith and the Remarks that follow. Claims 1-38 are now pending in this application.

In the Office Action dated February 27, 2008 (hereinafter the "Office Action"), the Specification was objected to with a request to include a copy of Sections 1031 and 721 of the Internal Revenue Code (hereinafter "§ 1031" and "§ 721", respectively). Claims 1-19 were rejected under 35 U.S.C. 101 as being directed to non-statutory subject matter. Claims 1, 8, 11, 20, 27, and 30 were rejected under 35 U.S.C. 112 2nd paragraph for being indefinite. Claims 19 and 38 were rejected under 35 U.S.C. 112 2nd paragraph for lacking sufficient antecedent basis. Claims 1-38 were rejected under 35 U.S.C. 103(a) as being unpatentable over U.S. Patent Application Publication No. 2002/0013750 to Roberts et al. (hereinafter "Roberts") in view of the Internal Revenue Code (hereinafter "IRC"). Claims 6 and 25 were rejected under 35 U.S.C. 103(a) as being unpatentable over Roberts in view of the IRC and in further view of U.S. Patent Serial No. 5,680,305 to Apgar (hereinafter "Apgar").

Applicant respectfully traverses each of these rejections.

The undersigned's Remarks are preceded by related comments in the Office Action, presented in small bold-faced type font.

Specification

> **Examiner respectfully request that the applicant include a copy of both Section 1031 and 721 of the Internal Revenue Code.**

Office Action, pg. 2.

In response to the Office Action's objection to the Specification, Applicant respectfully submits that the Specification has been amended to include a copy of both § 1031 and § 721 of the IRC. No new matter has been added. Thus, Applicant respectfully submits that this objection has been overcome.

Claim Rejections - 35 USC §101

> **Claims 1-19 of the present invention are directed to non-statutory subject matter.**
> **A computer implemented method is possibly computer code per se and therefore not statutory subject matter. The examiner will examine the claims as if they are a method claim.**

Office Action, pg. 2.

Applicant respectfully traverses these rejections. At the outset, the undersigned respectfully notes that the Office Action's section 101 rejection merely states a conclusion – "Claims 1-19 of the present invention are directed to non-statutory subject matter. A computer implemented method is possibly computer code per se and therefore not statutory subject matter." – and does not in any way suggest the manner in which such conclusion was reached, such as, for example, by any reference to the claimed invention. Such a conclusory rejection cannot be sustained, and the Applicant respectfully traverses the Office Action's section 101 rejection.

Applicant respectfully submits that the Office Action's rejection is inconsistent with the plain meaning of section 101 and is contrary to the binding decisions of the United States Court of Appeals for the Federal Circuit.

Independent claim 1 reads,

> 1. A <u>computer implemented method for performing a tax-deferred transaction</u> involving an investor owning a relinquished property, the method comprising the steps of:
>
> exchanging <u>in a computer system</u>, said relinquished property for a replacement property, in accordance with the requirements of Section 1031 of the Internal Revenue Code;
>
> transferring <u>in the computer system</u>, said replacement property to an operating partnership wherein said operating partnership comprises operating partnership units; and
>
> receiving <u>in the computer system</u>, said operating partnership units in exchange for said replacement property, in accordance with the requirements of Section 721 of the Internal Revenue Code..

Applicant's claim 1, emphasis added.

1. The Office Action's rejection is inconsistent with the plain text of 35 USC § 101.

A proper analysis of whether a claim is directed to statutory subject matter begins with the language of 35 U.S.C. § 101, which states:

> Whoever invents or discovers any new and useful[1] process, machine, manufacturer, or composition of matter, or any new and useful improvement thereof, may obtain a patent therefor, subject to the conditions and requirements of this title.

In 1981, the United States Supreme Court re-established the broad scope of section 101 in *Diamond v. Diehr*, 450 U.S. 175. *Diehr* began its analysis by returning to first principles noting that, in cases of statutory construction, the Court must first look to the language of the statute. *Id.* at 182. The Court then noted the broad language of section 101, which contains a simple, concise legislative mandate that a patent may issue for "any new and useful process, machine, manufacture or composition of matter." *Id.*; see also *State Street Bank & Trust Company v. Signature Financial Group, Inc.*, 149 F. 3d 1368, 1373 (Fed. Cir. 1998) ("The repetitive use of the expansive term 'any' in § 101 shows Congress's intent not to place any restrictions on the subject matter for which a patent may be obtained beyond those specifically recited in § 101.") Indeed, in construing the broad nature of the statue, the Supreme Court had observed a year earlier that Congress intended section 101 to include "anything under the sun that is made by man." *Diamond v. Chakrabarty*, 447 U.S. 303, 308 (1980) quoting S. Rep. No. 1979, 82d Cong. 2d Sess., 5 (1952); H.R. Rep. No. 1923, 82d Cong., 2d Sess., 6 (1952). The *Chakrabarty* Court also recognized in construing section 101 that "'unless otherwise defined, words will be interpreting as taking their ordinary, contemporary, common meaning.'" *Id.* (quoting *Perrin v. United States*, 444 U.S. 37, 42 (1979)). Moreover, the Supreme Court issued an express warning: "[I]n dealing with the patent laws, we have more than once cautioned that 'courts should not read into the patent laws limitations and conditions which the legislature has not expressed.'" *Diehr*, 450 U.S. at 182 (quoting *Chakrabarty*, 447 at 308).

After reviewing the broad language of the statute, the *Diehr* court recognized that only "laws of nature, natural phenomenon, and abstract ideas" are excluded from patentability under section 101. 450 U.S. at 185. The Court explained the rationale behind the narrow limitation:

> "[A] new mineral discovered in the earth or a new plant found in the wild is not patentable subject matter. Likewise, Einstein could not patent his celebrated law that $E=mc^2$ nor could Newton have patented the law of gravity. Such discoveries are manifestations of ...nature, free to all men and reserved exclusively to none."

Id. (quoting *Chakrabarty*, 447 U.S. at 309).

In later applying that rationale to mathematics, the Court recognized that a mathematical formula may describe a law of nature, a scientific truth or an abstract idea. Importantly, the Court also recognized that mathematics may be used to describe steps of a statutory method or elements of a statutory apparatus. 450 U.S. at 188; see also *Arrhythmia Research Technology, Inc. v. Corazonix Corp.*, 958 F.2d 1053, 1056 (Fed. Cir. 1993). The crucial distinction is whether the mathematical formula is being claimed in the abstract or is being applied in the claim, when viewed as a whole, to create an invention of the type set forth in 35 U.S.C. § 101. *Diehr*, 450 U.S. at 192; see also *In re Alappat*, 33 F. 3d 1526, 1543 (Fed. Cir. 1994) (en banc); *Arrhythmia*, 958 F.2d at 1057 (quoting *In re Meyer*, 688 F.2d 789, 795 (CCPA 1982)).

The mathematical algorithm in *Chakrabarty* was the known Arrhenius equation. The Court held that when the algorithm was incorporated in a useful process, curing rubber, the subject matter was statutory. In reaching that conclusion, the Court treated mathematics like any other basic principle: while a basic principle is not patentable, a new and useful structure, created with the aid of that principle, is[2].

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1 "Useful" is defined as: "capable of being put to use: serviceable; esp.: having utility." Webster's New Collegiate Dictionary p. 1279 (1973); *Diamond v. Chakrabarty*, 447 U.S. 303, 308 (1980) (words in § 101 should be given their "ordinary, contemporary, common meaning").

2 The Supreme Court in *Chakrabarty* recognized the distinction between abstract and applied principles. Just as a combination of chemical re-agents that interact and react in accordance with the principles of chemistry does not become non-statutory because those interactions and reactions follow basic principles, neither does a process claim that is specifically configured to isolate risk in a financial transaction. In both situations, fundamental principles are being applied to obtain a useful result.

Measured against the plain text of section 101 and the fundamental teachings of *Chakrabarty*, the claims at issue clearly are directed to statutory subject matter. One cannot equate a computer implemented method for performing a tax-deferred transaction involving an investor owning a relinquished property comprising several steps with a law of nature, a natural phenomenon or an abstract idea. Further, while the claimed invention may utilize financial principles to fulfill such a request, the invention applies these principles to solve a particular problem in a tangible, concrete and useful manner.

The fundamental concepts re-established in *Chakrabarty* reveal that the Office Action's rejection is inappropriate.

2. The Office Action's rejection cannot be reconciled with recent decisions of the Federal Circuit.

Applicant further respectfully submits that the Office Action's rejection ignores the fundamental teachings of the Federal Circuit regarding the scope of section 101. When those binding precedents are applied to the claims at issue, it is clear that they are directed to statutory subject matter.

The seminal such case is *State Street.* The claimed invention in *State Street* involved the application of a mathematical algorithm to manage a new form of financial structure. The District Court had applied two judicially-created exceptions – the mathematical algorithm exception and the business method exception – in finding the claims were not directed to statutory subject matter. The Federal Circuit reversed. As for the presence of a mathematical algorithm, the Court stated:

> Unpatentable mathematical algorithms are identifiable by showing they are merely abstract ideas constituting disembodied concepts or truths that are not "useful." From a practical standpoint, this means that to be patentable an algorithm must be applied in a "useful" way. In *Alappat*, we held that data, transformed by a machine through a series of mathematical calculations to produce a smooth waveform display on a rasterizer monitor, constituted a practical application of an abstract idea (a mathematical algorithm, formula, or calculation), because it produced "a useful, concrete and tangible result" – the smooth waveform.
>
> Similarly, in *Arrhythmia Research Technology Inc. v. Corazonix Corp.*, 958 F.2d 1053, 22 USPQ2d 1033 (Fed. Cir. 1992), we held that

> the transformation of electrocardiograph signals from a patient's heartbeat by a machine through a series of mathematical calculations constituted a practical application of an abstract idea (a mathematical algorithm, formula, or calculation), because it corresponded to a useful, concrete or tangible thing – the condition of a patient's heart.
>
> <u>Today, we hold that the transformation of data, representing discrete dollar amounts, by a machine through a series of mathematical calculations into a final share price, constitutes a practical application of a mathematical algorithm, formula, or calculation, because it produces "a useful, concrete and tangible result</u>" – a final share price momentarily fixed for recording and reporting purposes and even accepted and relied upon by regulatory authorities and in subsequent trades.

State Street, 149 F.3d at 1373 (emphasis added).

Several aspects of this explicit holding highlight the bases of the Office Action's error. First, the *State Street* Court properly focused the section 101 analysis not on whether an algorithm was present but on whether the algorithm was being applied to produce a "useful, concrete and tangible result." If such a result is produced, the claimed invention is not an abstract idea and the section 101 test is satisfied. Second, the Federal Circuit expressly held that the calculation of a share price for use in managing a financial structure produces "a useful, concrete and tangible result." *Id.* If the result obtained by a machine is useful, concrete and tangible the only logical conclusion is that a method or process obtaining the same result is as well. Such conclusion was reaffirmed recently *In re Comiskey*, 499 F.3d 1365 (Fed. Cir. 2007). Applicant respectfully submits that the invention claimed in claims 1-19 results in the investor receiving operating partnership units in exchange for a replacement property, and doing so through a tax-deferred series of transactions. Thus, Applicant respectfully submits that the invention claimed in claims 1-19 produces "a useful, concrete and tangible result", and it is thus patentable.

For at least the foregoing reasons, the Applicant respectfully traverses the Office Action's section 101 rejection of all claims and respectfully suggests that the claims are in order for issuance.

Claim Rejections - 35 USC §112

> **Claims 1, 8, 11, 20, 27, and 30 are rejected under 35 U.S.C. 112 2nd Paragraph. The claims refer to the being in accordance with Internal Revenue code. Since the claims deal with positive law, Section 1031 and Section 721, they are indefinite. Appropriate correction is required.**

Office Action, pg. 2.

Applicant respectfully submits that this rejection is moot in view of the Amendments to the Specification submitted herewith, which incorporate the text of § 1031 and § 721 of the IRC.

> **Claims 19 and 38 recite the limitations "the entity of claim 17" and "the entity of claim 36" in the body of the claims. There is insufficient antecedent basis for these limitations in the claims.**

Office Action, pg. 2.

Applicant respectfully submits that this rejection is moot in view of the Amendments to claims 19 and 38 submitted herewith, which provide for proper antecedent basis for "the entity of claim 17" and "the entity of claim 36" in these claims, respectively.

Claim Rejections - 35 USC §103

> **Claims 1-38 are rejected under 35 U.S.C. 103(a) as being unpatentable over US PG-Pub 2002/0013750 to Roberts et al. (Hereinafter "Roberts") in view of the Internal Revenue Code (Hereinafter "IRC").**
>
> **Regarding 1 and 20.**
>
> **Roberts teaches a method for performing a tax-deferred transaction involving an investor owning a relinquished property, the method comprising the steps of:**
>
> **exchanging in a computer system, said relinquished property for a replacement property, in accordance with the requirements of Section 1031 of the Internal Revenue Code; (Fig. 1, Paragraph 38 IRC 1031)**
>
> **transferring in the computer system, said replacement property to an operating partnership wherein said operating partnership comprises operating partnership units;**
>
> **(See Fig. 1, Paragraph 38)**
>
> **receiving in the computer system, said operating partnership units in exchange for said replacement property, in accordance with the requirements of Section 721 of the Internal Revenue Code. (See Fig. 1, Paragraph 38; IRC 721)**
>
> **While Roberts teaches all exchanging relinquished property for a replacement property, transferring said replacement property to an operating partnership, and receiving operating partnership units in exchange for said replacement, It fails to teach that "the specifics of IRC section 1031 and 721. However, sections 721 and 1031 give an explanation of how their requirements should be met.**
>
> **It would therefor be obvious to a person having ordinary skill in the art at the time of the invention to modify Roberts to follow the requirements of Sections 721 and 1031 IRC. There**

> **is motivation to do so because it would prevent unnecessary taxes from being taken from the investor.**

Office Action, pg. 3-4.

Applicant respectfully traverses these rejections. Applicant respectfully submits that the Office Action has not established a *prima facie* case of obviousness because there is no motivation to modify or combine the reference teachings and even if the references were combined, none of the cited references, alone or in combination, describe or suggest all of the claimed limitations of at least claims 1 and 20.

Prior to discussion of the merits of the rejections, a brief summary of the invention may be helpful. The present invention includes transaction structures that provide investors that own real property, either directly (i.e., as an individual) or indirectly through a limited liability company, a partnership, a corporation, or a trust, with the opportunity to receive DCX Units in exchange for their direct interests (i.e., ownership of the property itself) or indirect interests (i.e., partnership interests in a partnership owning property) in such real property on a tax-deferred basis, and thereby achieve substantially the same diversification benefits and receive returns that are substantially equivalent to returns on the common stock of a REIT.

Transaction structures of the present invention involve, in no particular order, (i) an exchange of relinquished property owned by an investor for replacement property in a transaction that falls under the requirements of § 1031, and (ii) the opportunity to contribute direct or indirect interests in the replacement property or in an investor partnership to an operating partnership in exchange for DCX units pursuant to the requirements of § 721.

As will be discussed below, Applicant respectfully submits that neither Roberts nor § 1031 and § 721 of the IRC either alone or in combination, describe or suggest such an opportunity for investors, with transaction structures that allow for such potential contributions.

(a) Even if the references were combined, none of cited references, alone or in combination, describe or suggest all of the claimed limitations of the present invention:

Even if Roberts and § 1031 and § 721 of the IRC were combined, none of the references, alone or in combination, describe or suggest all of the claimed limitations of at least independent claims 1 and 20.

As an initial matter, Applicant respectfully disagrees with the statement in the Office Action that Fig. 1 and paragraph 38 of Roberts disclose the limitations in claims 1 and 20 "transferring in the computer system, said replacement property to an operating partnership wherein said operating partnership comprises operating partnership units" (Applicant's claim 1 and 20, emphasis added). Applicant respectfully submits that the replacement property being transferred is linked to the previous limitations of the claim, which refer to a § 1031 exchange. The cited portion of Roberts recites the following:

> *[0038] Referring to FIG. 1, a previously known tax-deferred exchange according to IRC .sctn.1031 (Title 26, United States Code Section 1031) is described. Exchanger 10, who wishes to exchange investment real property A, provides a third party, typically qualified intermediary 12, with the deed to property A. Qualified intermediary 12 then transfers the property to buyer 14 in exchange for money. Once the property is transferred to buyer 14, IRC .sctn.1031 specifies that exchanger 10 has 45 days to designate replacement properties, and 180 days to close on any replacement properties for the transaction to be considered an "exchange." Exchanger 10 designates replacement investment real property B, owned by owner 16. Qualified intermediary 12 then acquires replacement property B from owner 16 and transfers replacement property B to exchanger 10 and money to owner 16. Exchanger 10 must obtain a mortgage replacement on property B in an amount at least equal to the amount of any mortgages on relinquished property A.*

Roberts, para [0038].

Applicant respectfully submits that the cited section of Roberts describes a § 1031 exchange. This section of the IRC not only does not include an operating partnership, but explicitly excludes it, as evidenced by § 1031 itself, and as properly acknowledged by Roberts:

> *[0042] IRC .sctn.1031 also sets out certain exceptions. One important exception is that interests in a partnership are not subject to tax-deferred exchanges.*

Roberts, para [0042].

Thus, the cited portion of Roberts does not disclose at least an "operating partnership". In addition, Applicant respectfully submits that claims 1 and 20 require that the replacement property transferred to an operating partnership be the replacement property obtained through a § 1031 exchange (i.e. "<u>said</u> replacement property"). Applicant respectfully submits that this limitation is neither taught, nor suggested by neither Roberts in any of its paragraphs, nor by § 1031 and § 721 of the IRC. In fact, all these cited references in fact teach away from the claimed invention, as will be discussed below (see Section (b)).

For similar reasons, Applicant also respectfully disagrees with the statement in the Office Action that Fig. 1 and paragraph 38 of Roberts, along with § 721 of the IRC teach the limitations of claim 1 and 20 "receiving in the computer system, said operating partnership units in exchange for <u>said</u> replacement property, in accordance with the requirements of Section 721 of the Internal Revenue Code" (Applicant's claims 1 and 20, emphasis added). As explained earlier, these limitations require that operating partnership units be received in exchange for the replacement property obtained through a § 1031 exchange (i.e. "<u>said</u> replacement property"). Applicant respectfully submits that these limitations are neither taught, nor suggested by either Roberts in any of its paragraphs, nor by § 1031 and § 721 of the IRC. Moreover, Roberts does not teach or suggest in any of its paragraphs a § 721 exchange.

For at least the foregoing reasons, Applicant respectfully disagrees with the Office Action's statement that "*Roberts teaches all exchanging relinquished property for a replacement property, <u>transferring said replacement property to an operating partnership, and receiving operating partnership units in exchange for said replacement</u>*" (Office Action, pg. 3, emphasis added).

In addition, Applicant respectfully submits that, as acknowledged by the Office Action, Roberts does not contemplate a § 721 exchange. In fact, Applicant further notes that not only does Roberts not teach or render obvious the invention of claims 1 and 20, but in fact, the disadvantages of the Roberts invention were already highlighted by Applicant in the Background section of the Specification (pg. 5, line 25 - pg. 6, line 18) in reference to the parent application of the Roberts reference cited by the Examiner (U.S. Patent 6,292,788).

For at least the foregoing reasons, Applicant respectfully further submits that neither Roberts nor § 1031 and § 721 of the IRC alone or in combination teach the limitations of at least Applicant's claims 1 and 20.

<u>(b) There is no motivation to modify or combine the reference teachings:</u>

Applicant respectfully submits that the Office Action has not demonstrated a finding that there was some teaching, suggestion, or motivation, either in the references themselves or in the knowledge generally available to one of ordinary skill in the art, to modify the references or to combine the reference teachings, as required by the MPEP § 2143(G).

As an initial matter, Applicant respectfully submits that the teaching or suggestion to make the claimed combination is not found in either Roberts or the cited sections of the IRC. In fact, Applicant respectfully submits that both Roberts and the cited sections of the IRC teach away from Applicant's claimed invention. As the MPEP notes:

> *It is improper to combine references where the references teach away from their combination. In re Grasselli, 713 F.2d 731, 743, 218 USPQ 769, 779 (Fed. Cir. 1983).*
> MPEP § 2145, X, D(2).

The MPEP (§2141.02, VI) defines teaching away as when the disclosure does "*criticize, discredit, or otherwise discourage the solution claimed*" (*In re Fulton*, 391 F.3d 1195, 1201, 73 USPQ2d

1141, 1146 (Fed. Cir. 2004). Applicant respectfully submits that Roberts teaches away from the claimed invention because:

a) it requires that the owners of the deedshares do not acquire the attributes of a partnership, which would otherwise render the deedshares ineligible for the tax-deferred treatment under § 1031:

> *[0050] Master agreement 24 preferably comprises provisions that prevent holders of deedshares 22 from providing common services with respect to real estate portfolio 20, from entering into joint venture activities with respect to real estate portfolio 20 with fellow owners of deedshares 22, from establishing a common trade name in relation to their holdings of deedshares 22, and from commingling or establishing joint financial arrangements with respect to real estate portfolio 20 with other owners of deedshares 22. These provisions are intended to <u>prevent owners of deedshares 22 from acquiring the attributes of a partnership, which might otherwise make deedshares 22 ineligible for tax-deferred treatment under IRC .sctn.1031</u>.*
>
> Roberts, para [0050], emphasis added.

and

b) discourages one of skill in the art from resorting to investing in a REIT for not providing a way to convert an interest in real estate into an investment with more desirable characteristics without incurring significant market risk and tax consequences:

Roberts discusses the benefits of investing in a real estate investment trust (a "REIT") in the Background Section of the patent, as an existing investment resource in the real estate arena. In doing so, he notes that a real estate investor goes through a two-step process when seeking to use a REIT to execute a tax-exempt transaction. In a first step, the investor contributes the real estate property to a partnership owned by the REIT. In the second step, when the investor decides to liquidate the interest, he or she exchanges the partnership interest for REIT shares. Roberts clearly notes that <u>a § 1031 exchange cannot be used</u> to defer the taxes on an exchange of investment property for shares in a REIT and recognizes the disadvantages of this investment alternative:

> *[0012] A real estate investor goes through a two-step process if he or she seeks to use a REIT to take advantage of a tax-exempt transaction. First, the investor contributes the real estate property to a partnership owned by the REIT. Next, at such time as the investor elects to liquidate his or her interest, he or she exchanges the partnership interest for REIT shares. The second exchange is a taxable exchange and the investor may not utilize IRC .sctn.1031 to acquire other real estate in a tax exempt transaction. Once the investor completes the first step the only option the investor has is to acquire REIT shares in a taxable transaction.*

Roberts, para [0012].

And he further adds:

> *In addition, <u>an IRC .sctn.1031 exchange cannot be used to defer the taxes on an exchange of investment property for shares in a REIT</u>. REITs therefore do not provide a way to convert an interest in real estate into an investment with more desirable characteristics without incurring significant market risk and tax consequences.*

Roberts, para [0013], emphasis added.

For at least the foregoing reasons, Applicant respectfully submits that Roberts by stating that a § 1031 exchange cannot be used in an exchange of investment property for shares in a REIT, at least discourages the solution claimed by Applicant, and thus teaches away from it.

As for § 1031 and § 721 of the IRC, Applicant respectfully submits that the requirements of each one of these sections, in particular reference to the fact that § 1031 explicitly excludes interests in a partnership (§ 1031 (a)(2)(D)), whereas § 721 explicitly requires it (§ 721 (a)), also teach away from Applicant's claimed invention.

For at least the foregoing reasons, Applicant respectfully submits that it would not have been obvious to a person of ordinary skill in the art to modify Roberts in view of § 1031 and § 721 of the IRC to obtain Applicant's method and system as recited in claims 1 and 20, respectively, as one of skill in the art not only would have not found the teachings or suggestions in these references to arrive at Applicants' claimed invention, but in fact would have been discouraged from combining the cited references.

The Examiner has provided the following arguments to support his statement that it would have been obvious to a person of ordinary skill in the art to modify Roberts in view of the IRC:

> **It would therefor be obvious to a person having ordinary skill in the art at the time of the invention to modify Roberts to follow the requirements of Sections 721 and 1031 IRC. There is motivation to do so because it would prevent unnecessary taxes from being taken from the investor.**

Office Action, pg. 4.

Applicant respectfully submits that, as discussed above, Roberts, who would be one of skill in the art, explicitly stated the lack of applicability of a § 1031 exchange to a REIT partnership investment. Moreover, the Roberts invention explicitly excludes the formation of partnerships. As stated by the MPEP:

> *If the proposed modification or combination of the prior art would change the principle of operation of the prior art invention being modified, then the teachings of the references are not sufficient to render the claims prima facie obvious. In re Ratti, 270 F.2d 810, 123 USPQ 349 (CCPA 1959)*

MPEP § 2143.01, VI.

Applicant respectfully submits that given the fact that Roberts explicitly requires that no partnership be formed so that a § 1031 exchange is applicable, the combination suggested by the Office Action would change the principle of operation of Roberts. Moreover, § 721 exchange would not be applicable to Roberts, as no partnership is formed.

Applicant respectfully submits that this appears to be a case in which the Office Action's conclusion of "obviousness" is merely based on an application of hindsight reasoning gained by the review of the present application. Such hindsight reasoning is impermissible.

As the MPEP notes:

> *The tendency to resort to "hindsight" based upon applicant's disclosure is often difficult to avoid due to the very nature of the examination process. However, impermissible hindsight must be avoided and the legal conclusion must be reached on the basis of the facts gleaned from the prior art.*

MPEP § 2142; and

> *When applying 35 U.S.C. 103, the following tenets of patent law must be adhered to:(...) (C) The references must be viewed without the benefit of impermissible hindsight vision afforded by the claimed invention (...) Hodosh v. Block Drug Co., Inc., 786 F.2d 1136, 1143 n.5, 229 USPQ 182, 187 n.5 (Fed. Cir. 1986).*

MPEP § 2141 II

Thus, Applicant respectfully submits that the Office Action's conclusion that claims 1 and 20 would have been obvious to one of ordinary skill in the art is unsupported by Roberts and the IRC cited sections.

For at least the foregoing reasons, Applicant respectfully submits that at least independent claims 1 and 20 are distinguishable and unobvious over Roberts in view of the § 1031 and § 721 of the IRC, and notice to the effect that these claims are in condition for immediate allowance is respectfully requested.

Claims 2-7 and 14-19 depend directly or indirectly from independent claim 1, and claims 21-26 and 33-38 depend directly or indirectly from independent claim 20. Each of these dependent claims defines further features of the method and system, respectively. As such, these claims are patentable for at least the reasons noted above with respect to claims 1 and 20, as well as for the additional features recited therein. Accordingly, notice to the effect that dependent claims 2-7, 14-19, 21-26 and 33-38 are in condition for immediate allowance is respectfully requested.

> **Regarding 8 and 27.**
> **Roberts teaches a method for performing a tax-deferred transaction involving an investor owning a relinquished property, wherein said investor comprises an investor partnership, the method comprising the steps of:**
>
> **selling in a computer system, said relinquished property; (Fig. 1, Paragraph 38)**
>
> **transferring in the computer system, a first interest in said investor partnership to the operating partnership wherein said operating partnership comprises operating partnership units; (Fig. 1, Paragraph 38)**
>
> **receiving in the computer system, said operating partnership units in exchange for said first interest in said investor partnership, in accordance with the requirements of Section 721 of the Internal Revenue Code; (See Fig. 1, Paragraph 38; IRC 721)**
>
> **obtaining in the computer system, a replacement property in exchange for said relinquished property, in accordance with the requirements of Section 1031 of the Internal Revenue Code; (See Fig. 1, Paragraph 38, IRC 1031)**
>
> **transferring in the computer system, a second interest in said investor partnership to the operating partnership in exchange for additional operating partnership units, in accordance with the requirements of Section 721 of the Internal Revenue Code, wherein said second interest comprises a remaining interest in said investor partnership. (See Fig. 1, Paragraph 38; IRC 721) Examiner notes that Roberts does not limit the amount that an**

> **interest in the investor partnership can occur. An exchange that occurs multiple times is not patentably distinguishable from a similar exchange that occurs once.**
>
> **While Roberts teaches all exchanging relinquished property for a replacement property, transferring said replacement property to an operating partnership, and receiving operating partnership units in exchange for said replacement, It fails to teach the specifics of IRC section 1031 and 721. However, sections 721 and 1031 give an explanation of how their requirements should be met.**
>
> **It would therefor be obvious to a person having ordinary skill in the art at the time of the invention to modify Roberts to follow the requirements of Sections 721 and 1031 IRC. There is motivation to do so because it would prevent unnecessary taxes from being taken from the investor.**

Office Action, pg. 7-9.

Applicant respectfully traverses these rejections. For at least similar reasons to those presented above in reference to claims 1 and 20 which will not be fully repeated here, Applicant respectfully submits that the Office Action has not established a *prima facie* case of obviousness because there is no motivation to modify or combine the reference teachings and even if the references were combined, none of the cited references, alone or in combination, describe or suggest all of the claimed limitations of at least claims 8 and 27.

As discussed earlier, neither Roberts nor § 1031 and § 721 of the IRC teach or suggest a computer-implemented method that allows an investor comprising "an investor partnership" that owns a relinquished property, to a) exchange <u>said</u> relinquished property for a replacement property, in accordance with the requirements of Section 1031 of the Internal Revenue Code, and in the same system, b) receive operating partnership units in exchange for an interest in said investor partnership, in accordance with the requirements of Section 721 of the Internal Revenue Code, as required by claims 8 and 27 (emphasis added). Thus, Applicant respectfully disagrees with the statement in the Office Action that Fig. 1 and paragraph 38 of Roberts along with § 1031 of the IRC 1031 disclose at least the limitation "obtaining in <u>the</u> computer system, a replacement property in exchange for said relinquished property, in accordance with the requirements of Section 1031 of the Internal Revenue Code", as required by claims 8 and 27.

Similarly, Applicant respectfully disagrees with the statement in the Office Action that Fig. 1 and paragraph 38 of Roberts disclose at least the limitation "selling in a computer system, <u>said</u> relinquished property", as required by claims 8 and 27 (emphasis added).

In addition, the cited portion of Roberts does not disclose at least an "investor partnership" or an "operating partnership". Thus, Applicant respectfully disagrees with the statement in the Office Action that Fig. 1 and paragraph 38 of Roberts disclose at least the limitations "transferring in the computer system, a first interest in said investor partnership to the operating partnership wherein said operating partnership comprises operating partnership units", as required by claims 8 and 27.

Further, as also explained earlier, Applicant respectfully submits that, as acknowledged by the Office Action, Roberts does not contemplate a § 721 exchange. Thus, Applicant respectfully disagrees with the statement in the Office Action that Fig. 1 and paragraph 38 of Roberts disclose at least the limitations "transferring in the computer system, a second interest in said investor partnership to the operating partnership in exchange for additional operating partnership units, in accordance with the requirements of Section 721 of the Internal Revenue Code, wherein said second interest comprises a remaining interest in said investor partnership", as required by claims 8 and 27.

For at least the foregoing reasons presented above with regards to claims 1 and 20, and 8 and 27, Applicant respectfully disagrees with the Office Action's statement that "*Roberts teaches all exchanging relinquished property for a replacement property, <u>transferring said replacement property to an operating partnership, and receiving operating partnership units in exchange for said replacement</u>*" (Office Action, pg. 8, emphasis added).

Thus, Applicants respectfully submit that the Office Action's conclusion that claims 8 and 27 would have been obvious to one of ordinary skill in the art is unsupported by Roberts and the IRC cited sections.

Applicant respectfully submits that at least independent claims 8 and 27 are distinguishable and unobvious over Roberts in view of the § 1031 and § 721 of the IRC, and notice to the effect that this claims are in condition for immediate allowance is respectfully requested.

Claims 9-19 depend directly or indirectly from independent claim 8, and claims 28-38 depend directly or indirectly from independent claim 27. Each of these dependent claims defines further features of the method and system, respectively. As such, these claims are patentable for the reasons noted above with respect to claims 8 and 27, as well as for the additional features recited therein. Accordingly, notice to the effect that dependent claims 9-19 and 28-38 are in condition for immediate allowance is respectfully requested.

> **Claims 6 and 25 are rejected under 35 U.S.C. 103(a) as being unpatentable over Roberts in view of the IRC in further view of US Patent 5680305 to Apgar Regarding 6 and 25.**
> **Kemp along with IRC teach the dependent claim, however they fail to teach: calculating in the computer system, lease payments for said replacement property based on comparable property leasing rates. However Apgar does. (See Col 2 lines 4-39)**
> **Therefore it would have been obvious to a person having ordinary skill in the art at the time of the invention to modify Roberts and IRC to allow, calculating lease payments for said replacement property based on comparable property leasing rates. There is motivation to do so because it insures that the investor and operator are paying and being paid the appropriate amount.**

Office Action, pg. 17.

Applicant respectfully traverses these rejections. Applicant respectfully submits that claim 6 depends indirectly from claim 1, and claim 25 depends indirectly from claim 20, and each recites further features of the method and system, respectively. Accordingly, claims 6 and 25 are allowable at least for the same reasons noted above with respect to claims 1 and 20, as well as for the additional features recited therein.

<u>New Claims Added</u>

Applicant respectfully requests that new claims 39-67 be entered. No new matter has been submitted. Support for the new claims can be found throughout the Specification, for example, on page 17, lines 16-27 and on pages 20-28.

<u>Additional claim Amendments</u>

Applicant respectfully submits that claims 16 and 35 have been amended for the sole purposes of clarity, to correct a lack of antecedent basis. No new matter has been submitted.

CONCLUSION

Claims 16, 19, 35 and 38 and the Specification have been amended. Claims 39-67 have been added. Claims 1-67 are now pending and believed to be in condition for allowance. Applicant has made a diligent effort to place this application in better condition for immediate allowance and notice to this effect is earnestly solicited. The Examiner is respectfully requested to reconsider the application at an early date with a view towards issuing a favorable action thereon. If upon the review of the application, the Examiner is unable to issue an immediate notice of allowance, he is respectfully requested to telephone the undersigned attorney at (212) 895-1376 with a view towards resolving the outstanding issues.

The Commissioner is authorized to charge and fees required in connection with this submission to Deposit Account No. 50-0521.

Respectfully submitted,

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